dominion textile limited

annual report 1970

contents

Front cover

"CONCORD" — cool, contemporary, exciting, one of the new Impact Total-Look Series — A Canadian first, presenting a co-ordination of blankets, towels, bedspreads, sheets and slips.

Back cover

"TERRACE" — perennially popular florals with the modern feeling — another of our Impact Total-Look Co-ordinates — naturally, TRUPREST No-Iron.

Annual Meeting

The annual meeting of shareholders will be held at 2:30 p.m. on Wednesday, September 16, 1970 at the office of the Company, 1950 Sherbrooke Street West, Montreal.

Transfer Agent:

The Royal Trust Company
Montreal: 630 Dorchester Boulevard West, Montreal 101, Quebec
Toronto: 119 Adelaide Street West, Toronto, Ontario
Vancouver: 66 West Pender Street, Vancouver 4, British Columbia

Registrar:

Montreal Trust Company
Montreal: 777 Dorchester Boulevard West, Montreal 113, Quebec
Toronto: 15 King Street West, Toronto
Vancouver: 466 Howe Street, Vancouver 1, British Columbia

Shareholder enquiries

Communications regarding transfer requirements, lost certificates, dividends or changes of address may be directed to either the transfer agent at any office shown above, or to the Secretary of the Company, Box 6250, Montreal 101.

Si vous préférez recevoir ce rapport en français, veuillez vous adresser au Secrétaire, case postale 6250, Montréal 101, Québec.

highlights

(in thousands except for amounts per common share)

	1970	1969*
Sales	**$167,849**	$173,270
Income before income taxes	**4,849**	3,332
Income taxes (credit)	**1,537**	(1,765)
Net income before extraordinary item	**3,312**	5,097
Tax credit resulting from loss carry forward	**1,338**	—
Net income for the year	**4,650**	5,097
Per common share		
Net income before extraordinary item	**$ 1.25**	$ 1.93
Net income after extraordinary item	**1.76**	1.93
Dividends	**.60**	.60
Depreciation	**$ 9,590**	$ 9,556
Interest on borrowed money		
Long term	**2,869**	3,051
Short term	**2,654**	2,350
Additions to fixed assets	**4,834**	2,773

*Restated for comparison

report to shareholders

THE YEAR'S RESULTS

Despite a lower volume of sales, the outstanding feature of the year's financial results was that income before taxes rose to $4,849,000 an increase of more than 45% compared with the previous year. The major factor contributing to the lower net income is that the 1970 financial statements show an income tax charge of $1.5 million whereas there was an income tax credit of $1.7 million in the previous year. This reflects the transition to a more fully taxed position.

Net income for the year 1970 was $4,650,000 or $1.76 per common share compared with $5,097,000 equal to $1.93 per share for the 1969 fiscal year. The net income for 1970 includes an extraordinary credit of $1,338,000 equal to 51¢ per common share resulting from the recovery of part of the tax benefit on the 1967 loss carry forward against current income.

In the year ended June 30, 1970 we adopted the equity basis of accounting for companies in which we own 50% of the shares to reflect more realistically in our statements the value of these growing investments. With this method the investment in a 50% owned company is carried at our share of its equity, while our share of the net income is recorded in the year in which it is earned. The 1969 figures have been restated on a similar basis for purposes of comparison.

Sales for the year declined by $5.5 million from the levels attained a year ago. This drop of 3.1% reflects the hesitancy in the economy and the slower rate of growth which began in the second half of 1969 combined with the continued penetration of our markets by imports from low-cost countries. As a result of the anti-inflationary policies adopted by the Government, unemployment increased and interest rates rose sharply. All sectors of the economy were affected and the growth of consumer spending and residential construction activity, key indicators for our markets, declined significantly.

There was a tendency on the part of our customers to delay buying decisions and commitments because of the uncertain economy. The tightening of available credit and high interest rates placed the emphasis on maintaining lower inventories and greater reliance on primary suppliers for financial accommodation and fast deliveries.

However, sales in the fourth quarter of the fiscal year reversed the earlier trend and showed an impressive increase of 4.6% over the same period a year ago. Early indications are that this improved trend will continue in the first quarter of the new fiscal year.

The improvement in operating income resulted from further efficiencies in our manufacturing facilities, lower fibre costs, intensive cost control efforts, improved inventory management and a continuing emphasis on those products where satisfactory profit margins could be obtained. The gain was achieved in spite of rising wages and salaries, higher interest rates and taxes and increasing charges for most of the services we require.

The Canadian Government's decision to free the exchange rate on the Canadian dollar did not materially affect the Company's financial position or its operating results for the year. It is too early to tell exactly what the impact will be but the higher value of the Canadian dollar may well restrict our sales in the highly competitive export markets and will permit imports to enter Canada at an even lower cost. On the other hand, the cost of our substantial purchases of raw cotton, textile machinery and certain dyes and chemicals should be reduced.

The development and introduction of new products requires an almost continuous reorganization and extension of our productive facilities. As estimated a year ago, our capital expenditures totalled about $5 million during 1970. We continued to convert our facilities to expand the manufacture of products containing man-made fibres and to equip our plants with the latest technological improvements. A number of new projects are planned for 1971 including a major expansion of our Drummondville plant and capital expenditures for the year are projected at $7 million.

ACQUISITIONS

In keeping with the policy announced at last year's annual meeting, we are continuing our efforts to establish the Company as a major factor in fast growing areas of the textile industry. At the same time we are not neglecting the possibility of becoming involved in non-textile fields if desirable opportunities can be located. We have extended our operations through the following new investments totalling $3.5 million including the purchase of National Distillers and Chemical Corporation's interest in Lana Knit Canada Limited subsequent to the year end:

Brianyl Ltd.

Brianyl Ltd., a new internationally owned corporation set up to texturize man-made yarn, is jointly owned by Textiles Briand, of Champier, France, Dominion Textile Limited and Montreal industrialist, Mose Tari.

Texturizing is the processing of continuous filament yarns by a principle known as "false twist" to give them a characteristic which produces more bulk, stretch, warmth and moisture absorption in the finished product. The Brianyl plant in Drummondville, which proposes to use Canadian-made yarn, will have an initial capacity of approximately 1,000,000 pounds per year of fine denier, textured yarns now in high demand for ladies' stretch hosiery, leotards and panty hose. Brianyl holds the exclusive rights to the sale and use of the unique high speed Briand texturizing machines in the Western Hemisphere, Australia and New Zealand and it is intended to exploit these opportunities.

Elpée Limited

In June of this year we announced the acquisition of a controlling interest in Elpée Limited, a producer of man-made yarns spun in its Shawinigan Sud, Quebec, plant.

The company recently built a 30,000 sq. ft. plant with a production capacity of 75,000 pounds of yarn per week and employs 50 people. Yarns made from staple fibres such as viscose, acetate, polyester, nylon, acrylic and polypropylene are supplied to the tufted carpet and upholstery fabric industries.

Fiberworld Limited

Fiberworld Limited, jointly owned with The Workman Bag Company, is engaged in the manufacture of polypropylene carpet backings. In addition, it represents a medium through which the Company can pursue research and development projects relating to industrial and other uses of woven plastics.

The plant has an operating capacity of 8,000,000 sq. yds. per year, establishing Fiberworld as a major supplier to the growing Canadian carpet industry.

Jaro Manufacturing Company Limited

The Company has a controlling interest in Jaro Manufacturing Company Limited, a producer of non-woven fabrics in Woodstock, Ontario.

Jaro's non-woven fabrics are made from man-made fibres in various widths and gauges in highly specialized constructions for a wide range of products, including: insulation fabrics; filter material for pollution control; cushion wraps for furniture and dielectrically sealed laminates. The company's 40,000 sq. ft. plant in Woodstock is equipped with fully automated equipment capable of producing 5,000,000 sq. yds. per year.

Lana Knit Canada Limited

In October 1969, the Company and National Distillers and Chemical Corporation of New York jointly acquired Lana Knit Canada Limited, a leading Canadian manufacturer of double knit fabrics whose plant is located in Grand'Mère, Quebec. Recently, arrangements have been made to increase its productive capacity by approximately 50%, reflecting the growing demand for double knit fabrics.

Effective July 1, 1970 we acquired the remaining shares of Lana Knit from National Distillers and Lana Knit became a wholly-owned subsidiary of Dominion Textile.

TEXTILE POLICY

In May 1970, the Federal Government released its Textile Policy announcement which had been long awaited by the Canadian textile companies and their employees. Noting that the Canadian textile industries "are as efficient technologically as those of any other country", the Hon. Jean-Luc Pépin, the Federal Minister of Industry, Trade and Commerce did not propose any immediate measures in his statement. It was indicated that the Government's intention was to provide "a sense of direction, a framework and conditions within which the textile and clothing industries can plan, invest and develop with a greater degree of confidence". While making no advance commitment about the

provision of special measures, the Government indicated it was prepared to act unilaterally in cases of serious injury or threat of injury from low-cost imports in order to facilitate adjustment to or strengthening of the more viable lines of production.

The policy will also give the Government means of identifying and preventing problems of disruption. This will involve, among other things, amendments to the Customs Act to provide authority to withhold entry of shipments in excess of agreed limits. The policy further proposes that a Textile Review Board reporting to the Minister of Industry, Trade and Commerce be established with the power of enquiry and recommendation.

We are heartened that the Government policy recognizes the special problems faced by the Canadian textile industry which operates in a market having the highest per capita rate of textile imports in the world. When and how the Government's decision is implemented and the efficiency of the Board in disposing of import threats will ultimately determine the effectiveness of the whole policy. Undue delay on the Government's part will continue to affect our ability to make decisions on important programmes which are essential to the maintenance of existing jobs, and which could in many cases lead to additional employment opportunities. We have accordingly delayed our decision to commit several million dollars for the conversion of our Magog Cotton Mill to polyester and combed cotton blends.

In the international field, agreement has been reached by the GATT Countries to renew the long term arrangement for cotton textiles for a further three years, but the agreement was not extended to cover man-made fibres, as had been hoped, despite the increasingly significant portion of world trade in fabrics and garments containing these fibres. We are also watching with great interest the progress of negotiations between the United States and Japan where efforts are being made to curb the flow of imports of Japanese textiles into the United States. Such an agreement or the alternative of new U.S. import legislation would certainly have implications for Canada.

DIRECTORS

In September 1969, following last year's Annual Meeting, F. Ryland Daniels retired as Chairman of the Board. At that time, Edward F. King, President and Chief Executive Officer became Chairman of the Board and Ronald H. Perowne, Vice-President and General Manager was elected President and Chief Executive Officer. We are indeed fortunate that Mr. Daniels agreed to continue as a director and as a member of the Executive Committee of the Company so that his broad experience and knowledge of the industry are still available to us. He has served the Company in many capacities for 40 years and played a major role in the important developments during the 1960's which set the stage for the Company's current programmes.

OUTLOOK

Despite the many problems facing the economy and the textile industry in this country, we are optimistic about the 1971 fiscal year. There are signs of improvement in economic conditions in Canada and we expect a gradual increase in the level of activity as the year progresses. We have the manufacturing capacity and the capability to provide for a substantial increase in sales volume without any corresponding increase in fixed overhead. Considering the dramatic improvements achieved in operating income over the last three years when sales actually declined, the implications for earnings improvement through a 5% increase in sales volume are readily apparent.

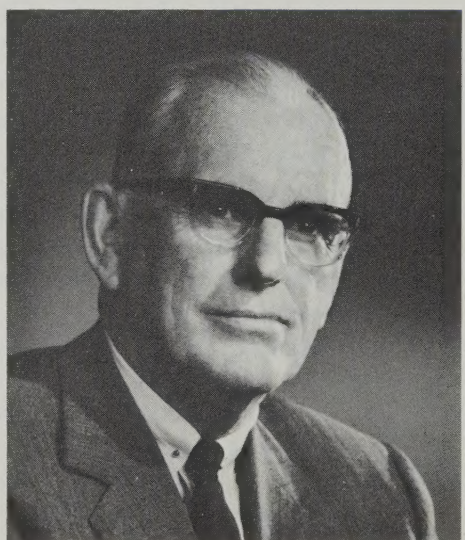
Our plant and equipment are in excellent condition, product lines are new and exciting and our employees have continued to demonstrate a spirit of cooperation and ability to meet rapidly changing conditions for which we extend our sincere appreciation.

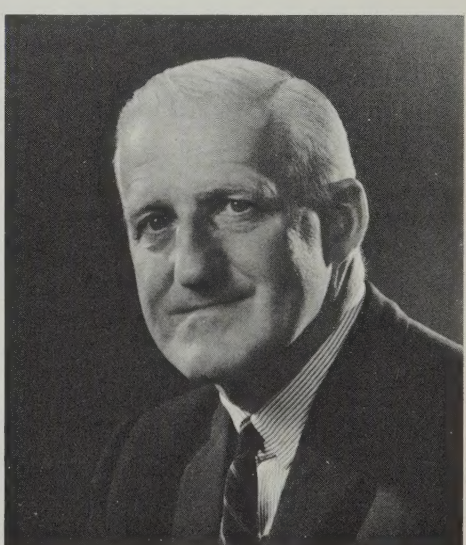
Submitted on behalf of the Board,

E. F. KING,
Chairman of the Board

R. H. PEROWNE,
President

Montreal, Quebec,
August 5, 1970





report on the year's operations

MARKETING

The fiscal year under review has been a most difficult period for the whole of the primary textile industry in North America. Our market characteristics were highlighted by continued pressure of imports from Asiatic, Communist-bloc and South American sources, by a proliferation of fibres, cloth constructions, fabric finishes and by a profusion of colour in all sectors of the apparel business including rapid and growing style and colour consciousness in the important men's and boys' wear sectors of the industry.

With tight money and a weakening of business activity in general, there were the inevitable bankruptcies and credit restrictions and a disinclination on the part of customers to build inventories. There was hesitation and great uncertainty as to the styles and the depth of back-up supplies which they should carry, all of which placed severe pressures on our production planning and customer service facilities.

The trend towards easy-care, no-iron fabrics for apparel and household linens continued its growth rate. Having anticipated this development several years ago, we were able to take full advantage of the demand and accordingly our usage of polyester/cotton blends for these markets increased significantly during the past year and will continue to grow.

Consolidated sales for the year were $167.8 million as compared with $173.3 million for the previous year. The major portion of this volume decline is attributable to a reduction in the sale of yarn to the knitting and weaving trades. This market in Canada has been decimated by the heavy volume of imports of cotton yarn from offshore countries at prices which make it impossible for the Company and other spinners in Canada to compete. The facts of this situation are well known to responsible officials in Ottawa and positive action to halt any further penetration of this market must be taken if unemployment and short time operations in this area are to be arrested.

The following table shows a comparison of our quarterly sales performance. It is of some significance to note that fourth quarter volume reached a record level and was 4.6% higher than for the same quarter in the previous year.

	1970 Sales	1969 Sales	% Change
	($000's)		
1st quarter	$ 33,507	$ 36,843	−9.1
2nd quarter	44,757	45,565	−1.8
3rd quarter	44,837	48,085	−6.8
4th quarter	44,748	42,777	+4.6
	$167,849	$173,270	−3.1

To date this upward trend has continued in the current fiscal year. Our new ranges of fabrics and household products have been most enthusiastically received by our various trades. The creative and imaginative stylings combined with usage of cationic dyeable polyester fibre have reinforced our position of leadership in the North American textile field. Other exciting and different styling innovations, including polychromatic dyeing, are now well advanced and will extend the scope of our marketing activities. We are confident that with these developments and the practical application of computerized management information data our volume and margins on sales will be improved.

It must be stressed that our Company's product lines are very broadly based for we sell to every manufacturing industry in Canada, the natural resource industries, construction, agriculture, as well as apparel manufacturing, home furnishings and a host of other sales outlets. Our optimism is accompanied by a note of caution that in many of these industries labour contracts are being negotiated this year and our sales could be adversely affected if labour and management in these industries cannot conclude new collective labour agreements without serious work stoppages.

Export sales this year were $10.0 million, compared with $10.4 million last year.

The U.K. import deposit plan continued to have a detrimental effect on sales to that country, our largest export market. Sales to the rest of our export markets were again higher, but the increase was not sufficient to offset the decline in sales to the U.K. While the import deposit plan is scheduled to be dropped at the end of 1970, further restrictive measures are scheduled to be implemented in January 1972.

We will, as in the past, continue to develop opportunities in the export field. At the invitation of the Canadian Government, the Company will present its products at the Frankfurt Trade Fair in November of this year. Through continuity in this type of promotion we expect to obtain further export acceptance of our products and fabrics.

MANUFACTURING

Plants operated at a lower level than last year. Owing to the disruptive influence of imports on sales, we were forced to shut down the sales yarn mills for periods of from two to three weeks, in addition to reducing operations at many other plants on a temporary basis.

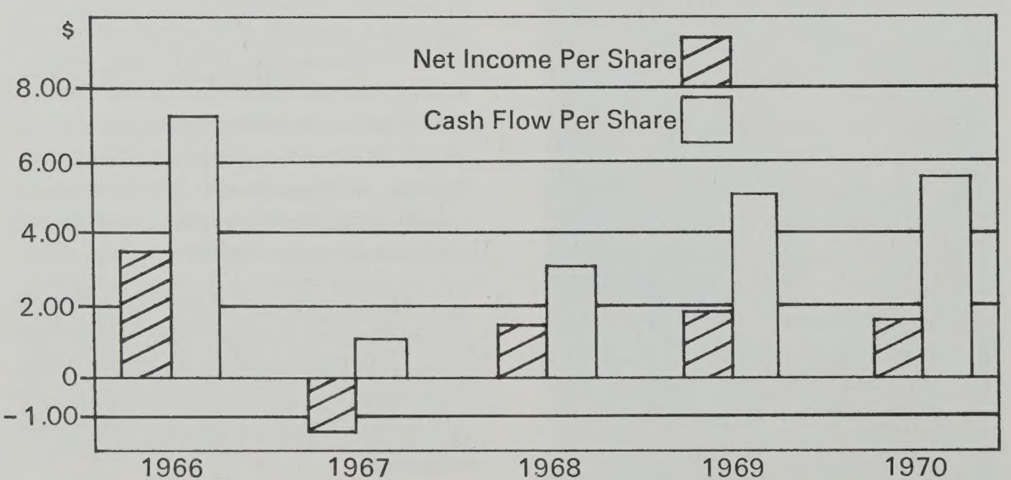
Total capital expenditures for the year were $4.8 million. The largest single item, $1.9 million, was spent on the modernization and expansion of the blend sales yarn plant in Sherbrooke. Other major expenditures included $600,000 for the installation of a Thermosol dyeing range for blend fabrics at Magog and to expand similar facilities at Beauharnois. The balance of capital expenditures was for changes and additions to various facilities.

Approximately $1.3 million was spent during the year for repair and replacement of items damaged during a fire at the Magog Print Works in which total losses may run to $1.5 million. These losses were covered by insurance.

As the major independent producer of tire cord fabrics in North America, we maintain close technical liaison with the principal tire manufacturers. In order to keep in the forefront of technological capability and to provide needed additional capacity, we have embarked on a project for the expansion and modernization of our Drummondville tire cord dipping unit at a cost of $2.2 million, of which $259,000 will be covered by a Government grant.

Grants totalling approximately $571,000 by the Federal Government under the Regional Development Incentives Act have been awarded to the Company for various modernization and expansion programmes at Sherbrooke, Drummondville and Magog plants. The cooperation and encouragement given by the Federal Government was a significant consideration in our decisions to undertake these important projects.

In addition, our new affiliates Fiberworld Limited and Brianyl Ltd. have been awarded approximately $440,000 for the establishment of new manufacturing operations.



SUBSIDIARIES

Caldwell Linen Mills Limited

Sales volume of $6.3 million was down from last year. However, substantial improvements in manufacturing operations largely offset the effect of this lower volume on net income.

Further improvements in manufacturing operations and in quality of production and a more effective and efficient organization will contribute to better results in the current year.

T. R. Hastings was appointed Vice-President and General Manager during the year.

Penmans Limited

Sales of $14.0 million were disappointing this year, the result of difficult conditions in the industry and an erosion in retail prices. The Coaticook plant was closed and operations were re-aligned to consolidate production facilities and reduce fixed overhead. The non-recurring expense of this programme further reduced the year's operating results and the benefits will begin to show in the next fiscal year. We expect that Penmans will show improvement in operating results in the current year.

FINANCIAL

Sales for the year were $167.8 million and net income amounted to $4,650,000 or $1.76 per common share after preferred dividends but including equity in the net income of 50% owned companies. Restated on a comparable basis for the twelve months ended June 30, 1969 net income per common share was $1.93. Cash flow per share after preferred dividends was $5.53 against $4.90 for the same period in 1969.

Net income in 1970 includes $1,338,000 or 51¢ per share resulting from the tax benefit on the 1967 loss carry forward. The total amount of the tax benefit available was $2,200,000, the balance of which is expected to be claimed in 1971.

Net income before income taxes was $1,517,000 higher than last year despite lower levels of activity in manufacturing and reduced sales volume.

Regular quarterly dividends of $1.75 per share were paid on the 7% cumulative preferred shares and dividends totalling 60¢ per share were paid on the common stock during the year.

Total expenses amounted to $164.3 million compared to $171.2 million a year ago. A comparison of the major items as a percentage of total costs is presented below with the 1969 figures restated on a basis comparable with 1970.

	1970	1969
	%	%
Raw materials	34.3	34.5
Labour	23.2	23.2
Supplies	7.1	7.8
Other manufacturing expenses	15.7	16.6
Depreciation	5.9	5.6
Selling and administration expenses	10.5	9.4
Financial expenses	3.3	2.9
	100	100

Depreciation as a percentage of total costs is slightly higher this year. The general increase in interest rates during the year affected our financial expenses which are 3.3% of total costs compared to 2.9% last year despite lower average borrowings.

The three-year tax holiday of Long Sault Yarns Limited ended on November 30, 1969. For net income purposes Dominion Textile is now in a fully taxed position with the exception of the balance of the tax benefit on the 1967 loss carry forward. Cash flow will not be affected to the same degree as $11.9 million in deferred taxes remains to be applied against future tax payments.

Working capital amounted to $48.5 million at June 30, 1970. This is $1.1 million higher than the comparable figure for 1969. Short term borrowings are down only slightly this year as funds generated from operations were used for capital expenditures, for investments and acquisitions, to increase working capital and for the reduction of long term debt. Although the Company's short term borrowings are mainly obtained from the commercial paper market, it is our policy to maintain sufficient unused bank lines of credit to cover all outstanding short term indebtedness.

The market value of our portfolio dropped substantially reflecting the general downward trend in stock markets this year. Since it is not the Company's present intention to dispose of these investments during the current year a decision was made to reclassify these assets as noncurrent.

The Company adopted equity accounting this year with respect to 50% owned companies. In the past the investment in such companies was recorded at cost and only dividends received were taken into income. The investment is now recorded as 50% of the book equity of these companies and 50% of their net income is taken into consolidated earnings. The investment in these companies will be increased each year by our share of net income after providing for any payout of dividends.

The second instalment due on the serial debentures was paid on April 15, 1970, and a similar amount has been included in current liabilities in anticipation of the payment due in 1971. During the year $1 million of our $5\frac{5}{8}$% debentures were purchased for sinking fund purposes, this being $40,000 in excess of the amount required. In total we have now accumulated $2.8 million of these debentures in anticipation of future sinking fund requirements.

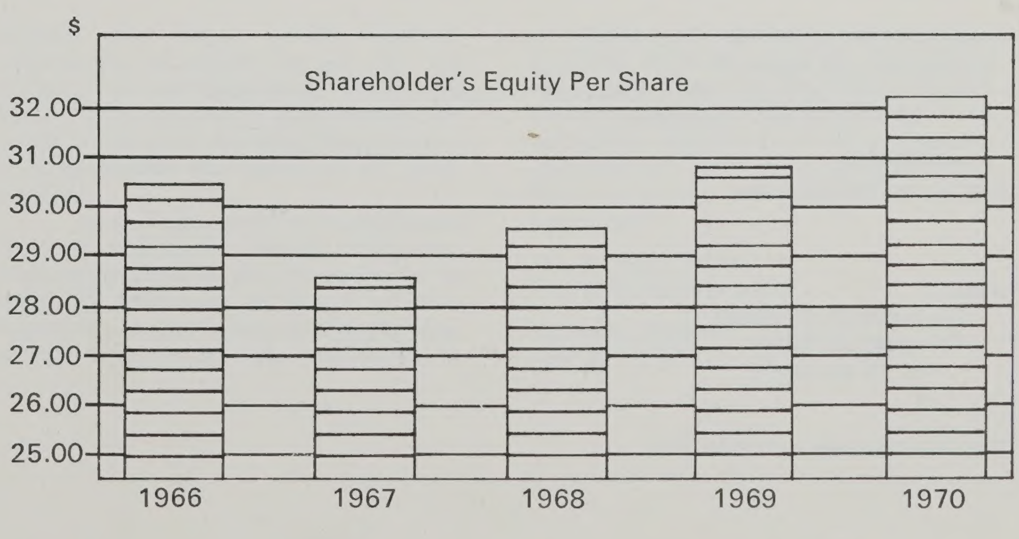
EMPLOYEE RELATIONS

The Company has successfully completed the programme begun over three years ago to look after the training and replacing of some of the 2,000 employees displaced as a result of plant closings. The Company was commended by the Hon. Bryce Mackasey, Federal Minister of Labour, for the manner in which this programme was handled.

The Company has always recognized the necessity of encouraging the continuing education and development of its employees. This has never been more important than in these times of rapid change and technological development. The Company provides financial assistance to those who wish to continue their education and supports a scholarship programme at "Institut des Textiles du CEGEP de St-Hyacinthe" and at Mohawk College of Applied Arts and Technology in Hamilton. In addition we sponsor employees at North Carolina State University where they follow a course of study leading to a B.Sc. degree in textile technology.

Labour negotiations under way last year at Long Sault Fabrics, Long Sault Yarns and Caldwell Linen Mills were concluded with the signing of agreements during the year. No collective labour agreements expire in the current year.

On June 30, 1970, companies in the Dominion Textile group employed 9,613 people compared to 10,449 people at June 30, 1969, and a total of $60 million in salaries, wages and employee benefits was paid during the year.



Consolidated Statement of Income
for the year ended June 30, 1970

	1970	1969*
Revenues		
Sales	$167,848,706	$173,270,348
Income from marketable securities and investments	395,602	327,904
Equity in net income of 50% owned companies	264,977	157,611
Profit on sale of fixed assets and marketable securities	636,641	729,216
	169,145,926	174,485,079
Expenses		
Operating and administrative	149,183,682	156,195,938
Depreciation	9,589,966	9,556,414
Interest		
Long term debt	2,869,040	3,050,835
Other	2,653,959	2,349,948
	164,296,647	171,153,135
Income before income taxes	4,849,279	3,331,944
Income taxes (credit) (Note 5)	1,536,876	(1,765,018)
Net income before extraordinary item	3,312,403	5,096,962
Tax credit resulting from loss carry forward (Note 3)	1,338,215	—
Net income for the year	$ 4,650,618	$ 5,096,962
Per common share, after preferred dividends		
Before extraordinary item	$ 1.25	$ 1.93
After extraordinary item	$ 1.76	$ 1.93

Consolidated Statement of Retained Earnings
for the year ended June 30, 1970

	1970	1969*
Retained earnings at beginning of year		
As previously reported	$ 59,073,777	$ 55,683,064
Adjustment relating to the adoption of the equity basis of accounting for 50% owned companies	965,914	907,866
As restated	60,039,691	56,590,930
Net income for the year	4,650,618	5,096,962
	64,690,309	61,687,892
Deduct:		
7% Preferred dividends	74,329	90,737
Common dividends		
$0.60 per share	1,557,464	1,557,464
	1,631,793	1,648,201
Retained earnings at end of year	$ 63,058,516	$ 60,039,691

*Restated for comparison

Consolidated Statement of Source and Application of Funds
for the year ended June 30, 1970

	1970	1969*
Funds provided		
Net income for the year	$ 4,650,618	$ 5,096,962
Add non cash items:		
Depreciation	9,589,966	9,556,414
Deferred income taxes	187,016	(1,841,783)
	$ 14,427,600	$ 12,811,593
Funds applied		
Repayment of long term debt	$ 2,875,000	$ 4,095,000
Less: additional long term debt relating to newly acquired companies	257,076	—
	2,617,924	4,095,000
Additions to fixed assets	4,833,522	2,772,827
Investment in 50% owned companies	1,864,902	58,048
Increase in marketable securities and advances	905,669	2,181,342
Dividends	1,631,793	1,648,201
Other	1,518,213	(255,494)
	13,372,023	10,499,924
Increase in working capital	1,055,577	2,311,669
	$ 14,427,600	$ 12,811,593

*Restated for comparison

Auditors' Report

The Shareholders,
Dominion Textile Limited

We have examined the consolidated balance sheet of Dominion Textile Limited and subsidiary companies as at June 30, 1970 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. For Dominion Textile Limited and those of the subsidiaries of which we are the auditors, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. With respect to the remaining subsidiaries of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to accept for purposes of consolidation the reports of the other auditors.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change to the equity basis of accounting for 50% owned companies referred to in the Company's statement of accounting policies, on a basis consistent with that of the preceding year.

Touche Ross & Co.
Chartered Accountants.

Montreal, Quebec.
July 31, 1970.

dominion textile limited and subsidiary companies

Consolidated Balance Sheet as at June 30, 1970

ASSETS	1970	1969*
Current assets		
Cash and short term deposits	$ 7,661,766	$ 4,940,578
Accounts receivable	26,986,441	25,229,638
Inventories — at lower of cost and net realizable value (Note 1)	59,650,202	62,157,966
Prepaid expenses	860,374	943,853
	95,158,783	93,272,035
Investments and advances (Note 2)	14,653,930	12,444,691
Fixed assets — at cost		
Land and buildings	59,205,841	58,261,826
Machinery and equipment	121,776,078	118,720,369
	180,981,919	176,982,195
Less: Accumulated depreciation	128,774,402	121,634,557
	52,207,517	55,347,638
Deferred charges		
Income taxes (Note 3)	11,877,920	12,041,153
Unamortized debenture expense	212,069	239,719
Other	719,930	118,423
	12,809,919	12,399,295
	$174,830,149	$173,463,659

On behalf of the Board:
E. F. KING, Director
R. H. PEROWNE, Director

LIABILITIES	1970	1969*
Current liabilities		
Bank indebtedness	$ 5,013,704	$ 5,843,600
Short term notes	27,211,700	26,230,000
Accounts payable and accrued liabilities	10,227,879	9,315,830
Dividends payable	400,198	406,687
Income and other taxes	1,745,098	2,201,298
Long term debt due within one year	2,105,007	1,875,000
	46,703,586	45,872,415
Long term debt (Note 4)	43,267,359	45,440,000
Minority interest in subsidiary companies	645,500	585,465
SHAREHOLDERS' EQUITY (Note 8)		
Capital stock		
7% Cumulative Preference Authorized — 20,000 shares $100 par value Outstanding — 8,765 shares (1969 — 12,474 shares)	876,500	1,247,400
Common Authorized — 7,500,000 shares no par value Issued — 2,595,774 shares	20,278,688	20,278,688
Retained earnings	63,058,516	60,039,691
	84,213,704	81,565,779
	$174,830,149	$173,463,659

*Restated for comparison

Accounting Policies

Applicable to the Consolidated Financial Statements for the year ended June 30, 1970.

The following accounting policies are used by the Company in the preparation of the consolidated financial statements.

Principles of Consolidation
The consolidated financial statements are prepared in accordance with generally accepted accounting principles and include the accounts of all subsidiary companies, with provision for the interest of minority shareholders.

During the year, the Company acquired controlling interests in Jaro Manufacturing Company Limited and Elpée Limited and the 1970 consolidated financial statements include the accounts of these subsidiaries.

The acquisitions of all subsidiary companies are accounted for on a purchase basis and earnings are included in the consolidated financial statements from the date of acquisition of control. The excess of aggregate net assets acquired over the Company's investment in subsidiary companies has been credited to fixed assets.

On consolidation all significant inter-company items are eliminated.

Foreign Exchange
Assets and liabilities in foreign currencies are converted at the exchange rates prevailing at the balance sheet date. Income and expenses in foreign currencies are converted at the actual exchange rates prevailing at the date of transaction or at average exchange rates for the year.

Consistency
The accounting principles are consistently followed from year to year except for occasional changes to reflect improved accounting practices. Accounting policy with respect to the investments in 50% owned companies was changed during the year as indicated below.

Inventory Valuation
Material and supplies in inventories are valued at the lower of average cost and net realizable value. The cost of work in process and finished goods inventories includes direct labour and certain manufacturing overhead expenses. Adequate provision is made for slow-moving and obsolete inventories.

Marketable Securities
Marketable securities are valued at average cost and when they are sold, the resulting gain or loss is included in net income.

Investments—50% Owned Companies
In the year ended June 30, 1970 the Company adopted the equity basis of accounting for the 50% owned companies. Under this method the investment in 50% owned companies is carried at the Company's equity therein and the Company's share of the net income of such companies is recorded in the period in which it is earned. In previous years, the investment in 50% owned companies was carried at cost and the Company's share in the net income of such companies was included in consolidated income only to the extent of dividends received. For comparative purposes, the consolidated financial statements for the year ended June 30, 1969 have been restated on a similar basis.

The excess of the cost of the Company's original investment in the 50% owned companies over the Company's equity therein at the time of acquisition has been charged to fixed assets (as an offset against the credit arising on consolidation of subsidiary companies).

Fixed Assets and Depreciation
Fixed assets are stated at historical cost. Depreciation is provided on a straight-line basis at rates which amortize the cost of buildings over a period of approximately twenty-five years and that of machinery and equipment over approximately ten years.

When fixed assets are sold or scrapped, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss on disposal is included in net income.

Income Taxes
The Company follows the tax allocation method of accounting for income taxes as recommended by the Canadian Institute of Chartered Accountants.

Pensions
The Company provides pensions for its employees. The hourly-paid employees are covered by non-contributory plans. There are a number of pension plans for salaried employees of the Company and its subsidiaries both of a contributory and a non-contributory nature. All pension plans are trusteed and are being funded. The current service cost portion of these plans is absorbed in the period in which the service that gives rise to the entitlement is rendered. The present value of the unfunded past service pension liability is estimated to be $5,200,000 at June 30, 1970 and is expected to be amortized on a systematic basis over the next sixteen years.

Pension payments made to retired employees who are not covered by these plans are charged to operations when paid.

Notes to Consolidated Financial Statements June 30, 1970

Note 1 — Inventories

	1970	1969
The main inventory classifications are as follows:		
Raw materials	$ 9,353,432	$12,695,917
Work in process, including greys in bales for further processing	21,579,118	22,818,873
Finished goods	24,924,231	22,125,602
Supplies	3,793,421	4,517,574
	$59,650,202	$62,157,966

Note 2 — Investments and Advances

	1970	1969
Marketable securities — at average cost* (market value 1970 — $6,626,000; 1969 — $8,074,000)	$ 8,854,879	$ 8,136,813
Investment in 50% owned companies — valued at the equity of Dominion Textile Limited in such companies**	3,473,073	2,188,183
Other investments and advances — at cost	2,325,978	2,119,695
	$14,653,930	$12,444,691

* The Company does not intend to dispose of the marketable securities in the coming year and consequently they have been classified as non-current. The 1969 figures have been restated for comparison.

** The adoption in 1970 of the equity basis of accounting for the 50% owned companies (see Accounting Policies) required an adjustment to retained earnings of $965,914 representing the Company's share of the undistributed earnings of The Esmond Mills Limited since acquisition.

Note 3 — Deferred Charges — Income Taxes

Deferred income tax charges result from:

(a) Providing more depreciation in the accounts than claimed for income tax purposes	$ 9,907,844
(b) Recording the income tax benefits which are expected to be realized in future years by carrying forward the tax losses of prior years to reduce future taxable income	3,413,933
Both of these benefits are contingent on earning future profits (which in management's view is virtually certain) against which the deferred charges may be applied.	
The income tax benefit of approximately $2,200,000 on the 1967 loss carry forward was not recorded in the accounts in the year of loss. In the current year $1,338,215 of this amount was realized and included in the consolidated statement of income as an extraordinary item.	
(c) Other	(1,443,857)
	$11,877,920

In the past, the two main components of deferred income taxes were presented on the basis of the losses reported in the financial statements whereas these items are now based on figures reported for tax purposes. This has resulted in a transfer between the components of deferred income taxes — the portion relating to the losses carried forward is lower than previously reported and the portion relating to the difference between depreciation recorded in the accounts and that claimed for tax purposes is correspondingly higher.

Note 4 — Long Term Debt	**1970**	1969
5⅝% Sinking Fund Debentures, Series A due March 31, 1988		
Authorized and issued $32,000,000 less purchased for retirement	**$28,190,000**	$29,190,000
Sinking fund payments of $960,000 are due March 31, in each of the years 1971 to 1987. (The Company has purchased $2,850,000 principal amount of debentures in anticipation of these payments)		
6¾% Serial Debentures, Series B payable in instalments of $1,875,000 April 15, 1971 and 1972		
Authorized and issued $7,500,000 less amounts repaid	**3,750,000**	5,625,000
6¾% Sinking Fund Debentures, Series B due April 15, 1990		
Authorized and issued	**12,500,000**	12,500,000
Sinking fund payments of $375,000 are due April 15, in each of the years 1972 to 1989		
Other mortgages and secured loans	**932,366**	—
	45,372,366	47,315,000
Deduct: Amounts due within one year — included in current liabilities	**2,105,007**	1,875,000
	$43,267,359	$45,440,000

The debentures are secured by a floating charge on all the assets (except real and immovable properties) of the Company and certain subsidiaries.

Note 5 — Income Taxes

The 1970 income tax provision has been computed on the reported income for the year after deducting items which are not subject to tax such as dividends, profit on sale of fixed assets and marketable securities, and earnings to November 30, 1969 of one subsidiary which operates in a designated area and which was exempt from income taxes to that date. Of the total provision of $1,536,876 only $42,991 represents taxes actually payable, the balance of the tax otherwise payable being offset by losses carried forward from prior years. As indicated in Note 3, a portion of the tax benefit (not previously recognized in the accounts) relating to the 1967 loss carry forward was realized in the current year and has been included in the consolidated statement of income as an extraordinary item.

Note 6 — Statutory Information	**1970**	1969
Administrative expenses include:		
Remuneration of directors, including remuneration of those who are officers	**$ 224,600**	$ 266,900
Remuneration of officers who are not directors	**487,870**	267,580

Note 7 — Anticipated Capital Expenditures

Capital expenditures for the year ending June 30, 1971 are estimated to be $7,000,000.

Note 8 — Restrictions Under Trust Deed

The Deed of Trust and Mortgage relating to the Debentures contains certain restrictions, customarily found in Deeds of this type, pertaining to the amount of long term debt which may be issued, the declaration or payments of dividends and the reduction of capital. At June 30, 1970 the amount of shareholders' equity not restricted under the terms of the Trust Deed was $12,689,000.

Note 9 — Subsequent Events

Subsequent to the date of the consolidated financial statements, the Company acquired the remaining 50% of the shares of Lana Knit Canada Limited.

ten-year summary

In thousands of dollars	1970	1969
Statement of income		
Sales	**$167,849**	$173,270
Income (loss) before income taxes	**4,849**	3,332
Income taxes (credit)	**1,537**	(1,765)
Tax credit resulting from loss carry forward	**1,338**	—
Net income (loss)	**4,650**	5,097
Balance Sheet		
Working capital	**48,455**	47,400
Working capital ratio	**2.04**	2.03
Additions to fixed assets	**4,834**	2,773
Provision for depreciation	**9,590**	9,556
Long term debt	**43,267**	45,440
Shareholders' Equity		
Shareholders' equity	**84,214**	81,566
Net income (loss) as a percentage of shareholders' equity at the beginning of the year	**5.70**	6.52
Per Common Share		
Net income (loss)	**1.76***	1.93
Cash flow	**5.53**	4.90
Dividends	**.60**	.60
Shareholders' equity	**32.10**	30.94
Number of Shareholders	**6,947**	7,128

*Net income per common share before tax credit resulting from loss carry forward amounted to $1.25.

1968	1967	1966	1965	1964	1963	1962	1961
$172,214	$129,585	$178,324	$161,601	$151,585	$137,324	$124,224	$103,185
(1,736)	(10,537)	14,302	12,363	13,266	11,323	9,351	9,046
(6,190)	(6,998)	5,119	6,101	6,709	5,292	4,201	4,444
—	—	—	—	—	—	—	—
4,454	(3,539)	9,183	6,262	6,557	6,031	5,150	4,602
45,206	43,376	40,444	58,946	44,552	44,576	42,488	40,880
1.90	1.71	1.89	3.89	2.83	3.11	2.63	3.15
3,333	19,314	31,139	19,765	10,564	7,104	5,900	3,816
9,547	9,257	8,713	7,796	7,776	5,308	4,830	4,367
49,535	52,000	32,000	37,450	5,900	6,350	7,940	8,411
78,201	75,743	80,651	74,489	71,517	68,128	64,920	62,053
5.88	(4.39)	12.33	8.76	9.62	9.29	8.30	7.70
1.68	(1.40)	3.50	2.39	2.50	2.30	1.96	1.74
2.87	1.21	7.13	5.40	5.51	4.35	3.82	3.44
.80	1.00	1.25	1.20	1.20	1.00	.80	.70
29.61	28.65	30.53	28.30	27.14	25.86	24.59	23.47
7,098	6,766	6,790	6,856	6,737	6,970	7,111	7,046

directors

*F. Ryland Daniels, Prescott, Ontario
Retired

Marcel Faribault, LL.D., Montreal
Chairman of the Board
Compagnie France-Film

J. Claude Hébert, Montreal
President and Chief Executive Officer
Warnock Hersey International Limited

*Edward F. King, Montreal
Chairman of the Board
Dominion Textile Limited

*D. Ross McMaster, Q.C., Montreal
McMaster, Meighen, Minnion, Patch & Cordeau
Barristers and Solicitors

Cal. N. Moisan, Montreal
President and General Manager
Standard Paper Box Ltd.

Arthur Pascal, Montreal
Secretary
The J. Pascal Hardware Co., Ltd.

*Ronald H. Perowne, Montreal
President and Chief Executive Officer
Dominion Textile Limited

W. Culver Riley, Winnipeg, Manitoba
Chairman of the Board
The Canadian Indemnity Company

Frank H. Sobey, Stellarton, Nova Scotia
Chairman of the Board
Sobeys Stores Limited

*Colin W. Webster, Montreal
President
Canadian Fuel Marketers Ltd.

*Member of the Executive Committee

officers

Edward F. King, *Chairman of the Board*

Ronald H. Perowne, *President and Chief Executive Officer*

Vice-Presidents

Thomas R. Bell, *Marketing*

Arthur P. Earle, *Operation Services*

W. Hood Gambrell, *Finished Goods Manufacturing*

Norman E. Kenrick, *Administration*

Robert W. Kolb, *Development Research*

Charles A. McCrae, *Finance*

Lawrence G. McDonough, *Grey Goods Manufacturing*

Lester J. Smith, *Fibre Procurement*

William J. Veitch, *Management Information Services*

Clifton Beck, *Secretary*

Francis P. Brady, Q.C., *General Counsel*

George F. Michals, *Treasurer*

M. Bruce Tennant, *Comptroller*

Penmans Limited

Charles W. MacLean, *President*

Caldwell Linen Mills Limited

T. Roy Hastings, *Vice-President and General Manager*

Hochelaga Merchandising Company Ltd.

J. E. Gorse Howarth, *Vice-President and General Manager*

Elpée Limited

Jean-Paul Perras, *President*

André-A. Laurent, *Vice-President*

Jaro Manufacturing Company Limited

Bjarne Jacobsen, *Executive Vice-President*

plants, subsidiaries and affiliates

Plants

Beauharnois Finishing
St. Timothée, Quebec
Dyeing and finishing—cotton, polyester/cotton and polyester/Polynosic fabrics for women's blouses, dresses, and sportswear, men's shirts, pants, sportswear, rainwear and outerwear; industrial and automotive fabrics.

Domil Fabric
Sherbrooke, Quebec
Fabrics of natural and man-made fibres for men's and women's sportswear, rainwear and outerwear; shirting; filament mattress ticking; filament chafer fabrics.

Domil Yarn
Sherbrooke, Quebec
Yarns of natural and man-made (polyester, high wet modulus rayon or acrylic) blends for knitters and weavers.

Drummondville
Drummondville, Quebec
Ducks, industrial hose and belt fabrics, abrasion fabrics, industrial grey cloth, chafer fabrics, tire cord and automotive fabrics.

Gault
Valleyfield, Quebec
Drills, twills, cotton and polyester/cotton fabrics, cotton drapery fabrics.

Long Sault Fabrics
Long Sault, Ontario
Polyester/cotton broadcloths, batistes, outerwear and sportswear fabrics.

Magog Cotton
Magog, Quebec
Cotton broadcloths; cotton and polyester/cotton print cloth and broadcloths; industrial fabrics.

Magog Print Works
Magog, Quebec
"A" Division: bleached, dyed and printed fabrics of cotton and polyester/cotton including drills, twills and sateens, dress and lingerie print cloths, batistes, shirtings, flannelettes, pocketings, linings and interlinings, drapery fabrics, printed filament ticking.
"B" Division: making-up of consumer products such as sheets, slips, towels and blankets in cotton and polyester/cotton.

Montmorency
Montmorency, Quebec
Sales yarn: cotton and man-made; flannelette blankets, industrial grey cloth, towelling and twines.

Mount Royal Cotton
Montreal, Quebec
Bag cloth, soft filled sheeting, buffing cloth, industrial fabrics and print cloth.

Mount Royal Dyehouse
Montreal, Quebec
Sales yarn: combed and carded, bleached and dyed, of cotton, man-made fibres and blends.

St. Anns Yarn
Montreal, Quebec
Combed and carded cotton sales yarn.

Salaberry Yarn
Valleyfield, Quebec
Sales yarn: combed and carded, cotton, blends of polyester/cotton and cotton with high wet modulus rayon.

Sherbrooke Cotton
Sherbrooke, Quebec
Sheeting for sheets and pillow cases of cotton and blends of polyester/cotton; sheeting for chenille and tufting; industrial fabrics.

Tremont Worsted
Montreal, Quebec
Worsted yarns of wool and wool/man-made blends; natural and dyed.

Subsidiary Companies

Caldwell Linen Mills Limited
Iroquois, Ontario
Terry towels and towelling, dish towels and bath mats.

Elpée Limited
Shawinigan Sud, Quebec
Yarns of man-made fibres for tufted carpets and upholstery fabrics.

Jaro Manufacturing Company Limited
Woodstock, Ontario
Non-woven fabrics of man-made fibres in specialized constructions for a wide range of end uses.

Long Sault Yarns Limited
Long Sault, Ontario
Cotton sales yarn.

Penmans Limited
Brantford, Ontario
Men's, ladies' and children's underwear in wool, cotton and man-made blends.

Paris, Ontario
Fine hosiery, underwear, outerwear and sportswear of cotton and man-made/cotton blends for men, ladies and children; knitted industrial fabrics.

St. Hyacinthe, Quebec
Men's, ladies' and children's underwear of cotton and man-made/cotton blends; hosiery; work socks and mitts; paper makers' felts.

Richelieu Fabrics Limited
St. Jean, Quebec
Broadcloths, twills, casement sateens, poplins and pocketing in cotton and blends of polyester/cotton.

Dominion Textile Company (U.K.) Limited
London, England
Company's selling agent for United Kingdom and Europe.

Hochelaga Merchandising Company Ltd.
Montreal, Quebec
Trading—international markets.

Howard Cotton Company
Memphis, Tennessee
Purchases raw cotton for company and subsidiaries in world markets.

Textile Management Services Inc.
Montreal, Quebec
Provides services relating to control of manufacturing standards for company and subsidiaries.

Affiliated Companies

Brianyl Ltd.
Drummondville, Quebec
Fine denier textured yarns for stretch hosiery, panty hose, leotards and other uses.

The Esmond Mills Limited
Granby, Quebec
Cotton and blend blankets, bedspreads, table fashions and napped fabrics.

Fiberworld Limited
Hawkesbury, Ontario
Polypropylene carpet backing.

Lana Knit Canada Limited
Grand'Mère, Quebec
Double knit worsted fabrics of wool and man-made fibres and blends.

Printed in Canada